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C O N F I D E N T I A L SECTION 01 OF 03 BAKU 000695

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DEPT FOR EB/CBA FRANK MERMOUD
DEPT FOR TDA DAN STEIN

E.O. 12958: DECL: 05/11/2016

TAGS: [ECON](#) [ETRD](#) [EPET](#) [EFIN](#) [EAID](#) [AJ](#)

SUBJECT: EB/CBA SPECIAL REPRESENTATIVE MERMOUD DISCUSSES
ECONOMIC AND BUSINESS REFORMS WITH NEW MINISTER OF FINANCE

Classified By: CDA Jason P. Hyland Per 1.4 (B and D).

¶1. (C) SUMMARY. On May 4 the Department's Special Representative for Commercial and Business Affairs Frank Mermoud met with new Minister of Finance Samir Sharifov to discuss improving the business climate, working more closely with the private sector and managing fiscal and budgetary constraints in the face of large oil revenue inflows. Mermoud's visit came only days after Azerbaijani President Aliyev's visit to Washington and highlighted many of the same economic and business themes. Sharifov, who became Finance Minister one week before the U.S. trip, told Mermoud that the GOAJ wanted to improve the overall business climate and attract U.S. companies to Azerbaijan. Mermoud welcomed the GOAJ efforts and urged the government to stop corruption and reduce bureaucracy. Sharifov requested U.S. assistance in implementing the TDA Oil Fund Phase II project and developing a national training center for accountants. At a separate event on May 5 with the American business community, Mermoud briefed on his meetings with GOAJ officials, noting to the group that the GOAJ wanted to increase U.S. investment and, hopefully, would soon take steps to improve the business climate. The participants outlined to Mermoud the local impediments to investment, citing lack of financing and rule of law, government bureaucracy and the small domestic market.
END SUMMARY.

¶2. (C) On May 4 the State Department's Special Representative for Commercial and Business Affairs Frank Mermoud and Charge d'Affaires discussed with new Minister of Finance Samir Sharifov building stronger ties with local businesses, reducing bureaucracy and corruption and improving economic cooperation with the U.S. Mermoud praised President Aliyev's presentation in Washington during a lunch with business leaders and noted that the overall visit went well. Congratulating Sharifov on his new appointment, Mermoud raised the importance of controlling inflation and fiscal spending even as the economy continues to grow. He urged Sharifov to remain engaged with the business community, including the American Chamber of Commerce in Azerbaijan (AmCham), and to reflect on AmCham's white paper recommendations. (NOTE: AmCham presented its white paper to President Aliyev in December 2005.)

¶3. (C) Mermoud also pressed Sharifov to improve the business and investment climate by reducing bureaucratic red tape and corruption. Mermoud noted that corruption represented a loss of revenue for the government. He praised the idea of creating a high-level economic policy committee to advise the president on economic and financial issues and offered to assist the GOAJ with the development of a strong non-oil

sector. Sharifov told Mermoud and Charge that President Aliyev's visit to Washington had been a success and that he valued the exchange of ideas. He noted that the trip created a new vision of future U.S.-Azerbaijan relations. Sharifov stated that Azerbaijan wanted to become a substantial player in the region and that settlement of the Nagorno-Karabakh problem would increase regional stability and economic growth.

¶ 14. (C) Turning to financial issues, Sharifov stated that the GOAJ's top goal for the coming two to three years was curbing inflation, noting that overcoming the economy's structural problems will be a tremendous challenge. Sharifov agreed with Mermoud's points of expanding relations with the business community, noting that the GOAJ looked to create favorable conditions for businesses and increased investment.

In addition, he noted that the GOAJ would consult with the business community and the AmCham on future government regulations that would affect business and investment. (NOTE: This is the first time any GOAJ official has indicated the government would collaborate with the private sector before taking a policy decision.)

¶ 15. (C) Sharifov told Mermoud that the GOAJ looked to improve the physical infrastructure of the country, including building new highways, water and sewage systems, and renovating school and hospitals. Interestingly, Sharifov noted that the GOAJ was looking to reform the educational and health care systems, adding that the GOAJ had just signed loan agreements with the World Bank for health care and judicial reform projects. He said that the judicial system and courts needed to take legally correct and appropriate decisions, especially when dealing with commercial disputes.

¶ 16. (C) Noting that corruption is a major problem and that it is a serious concern of the GOAJ, Sharifov briefed Mermoud on

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Azerbaijan's efforts in the Extractive Industry Transparency Initiative (EITI). Sharifov stated that oil revenue into the Oil Fund was transparent, but that the GOAJ had to improve its macroeconomic and budgetary planning. He praised the efforts of the USAID funded Public Investment Planning Project, calling it "useful," and noted that he looked forward to working with the U.S. Embassy team. Sharifov recognized that modernizing the budget process will not be easy due to the lack of capacity and expertise at line ministries that could not prepare effective budgets and spending need projections.

¶ 17. (C) Sharifov noted that the GOAJ has recently created the State Investment Company with USD 100 million that will invest in non-oil sector companies and projects. He mentioned that he had already been in contact with the AmCham president on several different projects for the new state company. Sharifov stated that the Ministry of Finance will look to develop capital markets and float one, two, three, and five year bonds in the coming months. He told Mermoud that Citibank and Moody's were working to provide a second country sovereign debt rating that would enable the government to borrow on international markets. Sharifov told Mermoud that he planned to use the Oil Fund to manage any excess liquidity at the Ministry of Finance rather than create a treasury function within the ministry.

¶ 18. (SBU) Speaking about the Oil Fund, Sharifov noted that the President would announce a new executive director soon and that Oil Fund would not be transferred to the Ministry of Finance. He noted, however, that the Minister of Finance sits on the board that oversees the Oil Fund, and that he will remain engaged for the time being. Sharifov urged Mermoud to expedite funding for Phase II of the Trade Development Administration's Oil Fund project. (NOTE: When he was Executive Director at the Oil Fund, Sharifov raised Phase II funding with TDA representative Dan Stein. As discussed with Stein, the Oil Fund must complete Phase I's report in order to develop phase II's terms of reference.)

Sharifov praised TDA's assistance and noted that phase two of the project would develop needed capacity at the Oil Fund.

¶9. (C) Mermoud raised the importance of promoting Azerbaijan's public image internationally. Mermoud suggested that Sharifov attend international events, such as the World Economic Forum in Davos, and offered to assist Sharifov if he visited New York. Mermoud offered to arrange business and media meeting for Sharifov in New York, including a visit to Forbes magazine and a trip to the New York Stock Exchange. Sharifov welcomed the opportunity to visit the U.S. and noted the importance of improving Azerbaijan's international image.

¶10. (SBU) Sharifov requested from Mermoud assistance in developing a national training center for accountants. Sharifov noted that by 2008 all state-owned enterprises will need to provide financial reports using international financial accounting standards. He said that there was a tremendous lack of trained accountants and that it was critical to create a trained cadre of accountants. Mermoud recognized the importance of this and noted that American accounting firms may be able to assist, as well as USAID. Sharifov also mentioned that President Aliyev would sign a decree creating scholarships for Azerbaijani students to study abroad in the U.S. or Europe to gain specific technical skills that would develop the country. Mermoud welcomed the idea and mentioned that the office of the Under Secretary for Public Diplomacy Karen Hughes may be able to identify potential U.S. universities and colleges for these students. Sharifov hoped that by the fall of 2007 the first students would be studying abroad.

¶11. (SBU) At a separate event on May 5, Mermoud met with 50 local U.S. business executives and representatives and briefed them on his meetings with the GOAJ, highlighting the successful trip of President Aliyev to the U.S. The meeting participants told Mermoud about the difficulties of doing business in Azerbaijan. Several participants noted that the lack of access to capital was a major hindrance to further investment and development, urging Mermoud to persuade a U.S. financial institution to come to Azerbaijan. Others noted that the lack of government transparency and the lack of rule of law were impediments to economic growth. Mermoud stated that the GOAJ needed to create incentives for the business community to flourish, including reforming the tax code. One participant noted that Azerbaijan's market was relatively small and that the energy sector crowded out non-oil sector

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enterprises. Mermoud stated that the GOAJ looked to build strong connections to the business community and that Azerbaijan's accession to the World Trade Organization would also improve the investment climate.

¶12. (U) EB/CBA Special Representative Mermoud cleared this cable.
HYLAND